

AUDIT

This activity is responsible for ensuring tax compliance and the collection of outstanding tax liabilities through the examination of information provided on tax returns and by auditing records at the taxpayer's place of business. This activity consists of five branches: Field Audit, Out-of-State Audit, Audit Services, Office Audit and Individual Tax Audit.

Field Audit

The Field Audit Branch audits businesses to determine if they have complied with their obligations under New Jersey's tax statutes. The audit examination of the taxpayer's accounting records is comprehensive and covers all taxes administered by the Division. In addition, as part of several interstate exchange agreements, select information may be obtained for other taxing jurisdictions during the performance of the audit.

The Sales Tax Refund Group has been transferred to the Field Audit Branch. The goal for this realignment is to reduce the time it takes to process claims by assigning pertinent cases to field auditors to perform the review function more effectively and efficiently.

In addition to regular audit activities, the Field Audit Branch has undertaken its cash audit initiative. This program is designed to strengthen compliance and collection efforts as well as level the playing field for smaller to moderately sized companies located in New Jersey. To help the Division identify cash businesses that need assistance, a special pilot team does pilot audits and helps develop procedures for those and other cash initiatives.

During the 2000 fiscal year, the field audit groups completed 3,307 assignments consisting of both regular and cash audits. The completed assignments generated assessments of \$60,934,083 including penalty and interest charges. The distribution of the assessments by tax is as follows:

Tax	FY 2000
Sales & Use	\$31,825,719
Corporation Business	8,614,158
Gross Income	1,720,030
Litter	406,713
Miscellaneous Other	923,260
Total Tax	\$43,489,880
Penalty and Interest	17,444,203
Total Assessments	\$60,934,083

Out-of-State Audit

The Out-of-State Audit Branch has the responsibility to perform field audits for all New Jersey taxes on all taxpayers whose accounting records are maintained outside of the State. Currently the Division has regional offices in Chicago (Illinois) and Anaheim (California), with telecommuters based in Atlanta, Norwalk and Houston.

Completions of audits by the Out-of-State Audit Branch for fiscal year 1999 and fiscal year 2000 were 200 and 226 audits respectively which generated assessments totaling \$29.2 million and \$72.2 million respectively. The distribution of assessments by tax is as follows:

Tax	FY 2000
Tobacco Products Whls.	\$18,677,722
Sales & Use	15,591,479
Corporation Business	4,903,464
Litter	920,815
Petro. Gross Receipts	213,809
Gross Income	466
Total Tax	\$40,307,755
Penalty and Interest	31,912,182
Total Assessments	\$72,219,937

Audit Services

The Audit Services Branch provides audit, technical and clerical support for various Branches within the Division. In addition to the support functions, the Branch houses the Alcoholic Beverage Tax, Cigarette Tax, Cooperative Interstate Tax Enforcement, Motor Fuels Tax, Petroleum Products Gross Receipts Tax, Public Utility Tax, Spill Compensation and Control Tax, and the Wholesale Tobacco Products Tax Groups.

The Audit Selection Group, through the use of its available resources, provides other Audit Branches with its list of potential audit candidates. Resources used in the selection process include the Division's internal database in combination with other outside sources of information. This information forms the basis for further analytical review. The Technical Support Group integrates and processes outside source information into the Division's database to provide valuable information for all of Audit. Data is received from outside sources such as the IRS, U.S. Customs, alcoholic beverage wholesalers and various other third parties. This group also develops management reports as required by different levels of administration.

The Audit Billing Group within Audit Services provides billing capabilities for the entire Audit Branch. This process includes making the necessary adjustments to the

Division's systems to properly reflect the taxpayer's account, creating bills, corresponding with taxpayers, applying payments, and transferring files for administrative hearings or securing liability for future collection.

The Word Processing Unit provides various Branches within the Division the ability to produce and handle massive quantities of material. This group provides the word processing support that otherwise is absent from groups such as Gross Income Tax Audit, Nexus, and other areas that require assistance with high volume projects.

The Cooperative Interstate Tax Enforcement Group administers the agreement between New Jersey and New York as it relates to Sales and Use Taxes being charged by vendors doing interstate business. This unit is also responsible for the assessment of Use Tax on taxable purchases which are made out-of-State and works with the U.S. Customs Service data in assessing Use Tax that is due on imported goods being brought into New Jersey by both businesses and individuals. It also administers the provisions of the Jenkinson Act as it relates to cigarettes being purchased out-of-State.

Recently, all Motor Fuels Tax responsibility has been transferred to the Audit Services Branch. Combined with the other miscellaneous taxes, this Branch now handles the administrative functions for all Motor Fuels related taxes, Tobacco taxes and Alcoholic Beverage taxes.

The Motor Fuels Group administers the Motor Fuels Tax, Petroleum Products Gross Receipts Tax, and the Spill Compensation and Control Tax. The group is responsible for issuing licenses, determining proper bonding and issuing refunds. The group conducts office audits, reconciliations of taxpayer accounts and provides taxpayer services.

The Tobacco and Alcoholic Beverage Tax Group administers the Cigarette Tax, Wholesale Tobacco Products Tax and the Alcoholic Beverage Tax. The group is responsible for maintaining pricing requirements along with the audit and investigation of any Tobacco tax related activity.

The Public Utility Tax Unit reviews taxpayer reports, conducts office audits and maintains taxpayer accounts as they relate to various Energy and Utility taxes.

During fiscal year 2000 the groups within the Branch generated additional assessments in excess of \$7 million. The distribution of assessments is as follows:

Tax	Amount
Public Utility	\$3,783,326
Motor Fuels/Petro. Products	2,695,641
Cooperative Interstate	573,581
Tobacco	625,631
Alcoholic Beverage	18,861
Total Assessments	<u>\$7,697,040</u>

Office Audit

The primary responsibility of the Office Audit Branch is the audit and refund of Corporation Business Tax. Other taxes audited include the Financial Business Tax, Insurance Premiums Tax, Ocean Marine Tax, Retaliatory Tax, Savings Institution Tax, various Sanitary Landfill Taxes, Spill Compensation and Control Tax, and the Corporation Income Tax.

The Branch is comprised of nine audit groups. Three groups are assigned general corporate desk audits. The two Corporate Service Audit Groups have the responsibility to examine taxpayers in order to issue Tax Lien Certificates, Tax Clearance Certificates, and Certificates of Reinstatement of Corporate Charter. The Special Audit Group has responsibility for the other smaller taxes as well as reviewing Internal Revenue audit changes. The Nexus Audit Group has the responsibility to discover and examine out-of-State entities to determine whether they have an unreported tax filing and paying obligation. The Corporate Bill Group has responsibility to review all deficiencies generated by Corporation Business Tax filings, as well as auditing all amended returns not claiming a refund. The Corporate Refund Audit Group is responsible for auditing and approving all Corporation Business Tax refund claims. Last fiscal year, this group denied refund claims totaling \$34,255,383.

During fiscal year 2000, the nine audit groups generated assessments, including penalty and interest, of almost \$75 million while issuing 20,339 tax certificates of various types. Distribution of assessments by tax is as follows:

Tax	Amount
Corporation Business	\$37,450,527
Sales & Use	2,673,860
Gross Income	807,993
Miscellaneous Others	6,847,681
Total Tax	<u>\$47,780,061</u>
Penalty and Interest	27,211,978
Total Assessments	<u>\$74,992,039</u>

Individual Tax Audit

The Individual Tax Audit Branch is comprised of the Gross Income Tax Audit Section and the Transfer Inheritance Estate Tax Section.

Gross Income Tax Audit. The Gross Income Tax Audit Section is responsible for auditing Gross Income Tax returns filed with the State of New Jersey. The audits are done using a variety of criteria developed within the Branch, utilizing information from the Internal Revenue Service, neighboring states, and other New Jersey agencies, where applicable. The Section also pursues delinquent resident and nonresident taxpayers separately and in joint projects with other Division branches and the Internal Revenue Service. Some categories of individuals and/or businesses the Section is currently focusing on are S corporations and their shareholders, partnerships and their partners, the self-employed, fiduciaries and their beneficiaries, entertainers, professional athletes, and employers withholding Gross Income Tax. During fiscal year 2000, the six teams of the Gross Income Tax Section completed the following cases using computer-assisted and manual audit techniques:

	FY 2000
Cases Reviewed	33,442
No. of Assessments	9,835
Tax Assessed	\$27,948,049
Penalty and Interest	11,354,428
Total Assessments	\$39,302,477
Amount Collected	\$20,466,460

Transfer Inheritance and Estate Tax. The Transfer Inheritance and Estate Tax Section is responsible for all phases of the administration of the two taxes, from offering taxpayer services, to auditing, to the issuance of waivers.

The Taxpayer Service Unit in the Transfer Inheritance and Estate Tax Section handled 26,706 telephone inquiries from taxpayers and/or their representatives and also aided 770 individuals at the Division's Trenton location.

During fiscal year 2000, the six teams of the Transfer Inheritance and Estate Tax Section completed the following cases:

	FY 2000
Cases Audited	8,128
Total Assessments	\$21,206,812

The section also processed 10,019 Inheritance Tax returns, 2,461 Estate Tax returns, 45,187 self-executing waivers (Form L-8), 9,027 requests for real estate waivers (Form L-9), and 38,680 regular waivers. Revenue in the amount of \$490,701,251 was collected of which \$282,224,791 represented New Jersey Inheritance Tax, and \$208,476,460 represented New Jersey Estate Tax.

TECHNICAL SERVICES

Conference and Appeals

The Conference and Appeals Branch handles taxpayer complaints and protests and conducts informal administrative hearings.

All incoming protests are evaluated by the Review Section for compliance with the statutory and regulatory provisions for Protests and Appeals. During the fiscal year, the Review Section forwarded to the Conference Section backlog 828 cases, only 28% of the total incoming protests.

The Conference Section provides informal administrative hearings. Determinations are rendered based upon the application of the statutes, regulations and Division policy to the specific taxpayer's facts as supported by the evidence provided. After the hearing process, conferees issue the Division's Final Determinations on assessments, notices of individual responsibility for trust fund taxes, denials of refunds, as well as such non-monetary issues as nexus, subjectivity determinations, and the denial of claims by organizations claiming exempt status. The Conference Section closed 693 cases for the year.

The exclusive remedy for a taxpayer, should they disagree with the Division's Final Determination, is to file a complaint with the Tax Court of New Jersey. The Appeals Section of the Branch tracks and manages these cases, acting as the Division's liaison with the Deputy Attorney General assigned to defend the Division of Taxation. During the fiscal year, 138 new appeals were filed and 141 cases were concluded.

This fiscal year, the Conference and Appeals Branch received 2,875 protests and collected over \$11 million. Fewer than 5% of the cases protested to the Conference and Appeals Branch proceed to the Tax Court of New Jersey.

Customer Services Branch

Customer Services is responsible for encouraging voluntary compliance by providing taxpayers with the information and assistance they need to meet their New Jersey tax responsibilities. Additionally, the Branch provides assistance to New Jersey residents in applying for and obtaining property tax rebates they may be eligible for. The Customer Services Branch provides assistance through phone calls, automated services, training, and outreach. Two out of three taxpayers used one or more of the following automated services during the fiscal year 2000.

- **NJ PC File** is the latest use of technology to improve our services to taxpayers. NJ PC File offers taxpayers the opportunity to prepare their income tax returns on a

personal computer using free software downloaded from the Division's Web site, then transmit the information directly to the Division of Taxation. During the 1999 tax season, over 11,000 taxpayers filed their returns with NJ PC File and had their refund checks mailed within two weeks.

- **NJ TeleFile** is a quick, easy and convenient way for New Jersey residents to file their income tax returns from a Touch-tone telephone. During the 1999 tax season, over 177,000 taxpayers filed their returns by NJ TeleFile and had their refund checks mailed within two weeks.

- **Automated Tax Information System** offers taxpayers four types of assistance from a Touch-tone phone:

Automated Refund Inquiry System provides information about current year tax refunds (used by 439,875 taxpayers in fiscal year 2000).

Homestead Rebate InfoLine provides information on the status of current year homestead rebates (used by 185,746 taxpayers).

New Jersey TaxTalk offers prerecorded information on 77 different topics (used by 39,990 taxpayers).

Forms Request System allows callers to order tax forms and publications (used by 112,049 taxpayers).

- **NJ TaxFax** service makes State income tax forms and other technical information available to fax machine users. During fiscal year 2000, 74,580 forms were sent to taxpayers via TaxFax.

The Customer Services Branch includes the following:

Customer Service Center. A state of the art telephone facility which, when fully staffed with over 100 agents, can handle 10,000 calls a day. All representatives have PCs on their desks and are able to receive calls, access the Division's Taxnet system and view images of tax returns on their PCs. Incoming calls are routed to agents with the corresponding skill levels, and Spanish-speaking callers have the opportunity to speak with a representative who is fluent in Spanish. During fiscal year 2000, 1.7 million phone calls were received.

Training & Outreach. Supports Division employees, the taxpaying public and the practitioner community. The Training & Outreach Unit also administers the Division's Speakers Bureau and the Small Business Workshop series; provides speakers on many New Jersey tax related issues and topics; and administers the VITA (Volunteer Income Tax Assistance) and TCE (Tax Counseling for the Elderly) programs.

Trenton Regional Office. Open to the public as a walk-in service, the office is located in the main lobby of the Taxation Building in Trenton. Customer Services representatives are available to assist taxpayers in preparing returns as well as to accept returns and payments for processing. During fiscal year 2000, this office collected revenues in the amount of \$8,847,164.

Information and Publications

The Information and Publications Branch is responsible for developing and creating most of the publications issued by the Division, including the instructions for individual income tax returns, technical bulletins, brochures and notices, and the quarterly newsletter for tax practitioners, the *New Jersey State Tax News*. The Branch also prepares replies to much of the general taxpayer correspondence, e-mails and referrals that come into the Division. During fiscal year 2000 Branch employees responded to more than 22,000 pieces of general taxpayer correspondence and referrals, 84% (18,300) of which was e-mail. The e-mail received during fiscal year 2000 represents an increase of 115% over the number of e-mails received during fiscal year 1999.

The Information and Publications Branch is also responsible for providing assistance regarding the State's Homestead Rebate, NJ SAVER Rebate and Property Tax Reimbursement programs. Assistance is provided directly to New Jersey legislators seeking resolution to constituents' problems, as well as through taxpayer correspondence. Nearly 3,700 legislative inquiries and 32,000 pieces of taxpayer correspondence regarding these property tax relief programs were answered during fiscal year 2000.

The Branch includes the Taxpayer Forms Services (TFS) section. TFS mails out forms and publications in response to taxpayers' requests and handles bulk mailing for special projects throughout the Division. During fiscal year 2000, TFS mailed more than 477,000 items.

Regulatory Services

The Regulatory Services Branch drafts rules, regulations and notices for publication in the *New Jersey Register* and the *New Jersey State Tax News*. It acts as the Division liaison with the Office of the Attorney General on technical and regulatory issues; provides administrative and enforcement advice to Division management and staff on all tax laws under the jurisdiction of the Division. Further, it drafts proposed legislation; reviews legislation and prepares comments; provides technical assistance in the implementation of new tax laws; and analyzes, researches and responds to all taxpayers' inquiries and requests for technical advice or letter rulings.

The Branch is charged with the responsibility of coordinating the processing of all Division rules and notices. The Administrative Practice Officer within the Branch maintains contact with the Office of Administrative Law in order to oversee the promulgation of Division rules and their official publication in the *New Jersey Register*. A total of 14 rules and notices were proposed, adopted and published in fiscal year 2000.

The Branch also completed over 1,800 technical advice letters and responses to general correspondence, and answered approximately 13,000 telephone inquiries on technical tax matters.

Within the Regulatory Services Branch:

Exempt Organization Unit processes and makes determinations on applications for Sales and Use Tax Exempt Organization Certificates. For fiscal year 2000, the Exempt Organization Unit mailed over 1,600 applications, ruled on over 1,500 applications, and issued 36 denials of exempt organization status.

Office of Legislative Analysis is responsible for reviewing all tax bills introduced in the legislature. It evaluates the potential administrative, fiscal, and policy implications of proposals which are scheduled or likely to be scheduled for legislative action; it proposes amendments to insure that a bill can be effectively implemented, prepares bill comments and fiscal notes, and recommends positions to be taken by the State Treasurer. Additionally the Office of Legislative Analysis (OLA) monitors legislative activity, determines when bills affecting the Division are scheduled for committee or house action, and tracks the progress of each bill as it proceeds through the legislature. It works closely with the Treasurer's Office and, when a bill is enacted into law, it often initiates and participates in the implementation process.

During fiscal year 2000 OLA:

- Monitored and tracked 580 bills relating to the Division of Taxation.
- Prepared 261 legislative recommendations and bill comments.
- Prepared 142 fiscal notes.
- Testified before various Assembly and Senate Committees.
- Provided information on New Jersey legislative tax developments to many persons and organizations seeking such information.

In addition, personnel of the Regulatory Services Branch have been assigned as staff to the *Sales and Use Tax Review Commission*. The Commission was created by the New Jersey Legislature to evaluate and report on proposed legislation that would either expand or contract the base of the New Jersey Sales and Use Tax.

COMPLIANCE

Special Procedures

The Special Procedures Branch is primarily responsible for the enforcement and compliance efforts of the Division. As a result of the activity's efforts in discovering, registering taxpayers, and enforcement activities, the State received \$37,347,599 in additional revenue. The specific functions of Special Procedures are as follows:

Attorney General Referrals. Whenever the Division has exhausted its collection remedies without success the case may be referred to the Office of the Attorney General for additional collection actions. Such actions may include domesticating the Division of Taxation's lien in another state wherein assets of the debtor may have been located, and/or instituting wage garnishment proceedings. The Branch referred 2,018 cases to the Office of the Attorney General for collection. Collections of \$5,603,557 were received on Attorney General referral cases during fiscal year 2000.

Bankruptcy. The primary function of the Bankruptcy Section is to effectuate pursuit of delinquent taxes from debtors who have filed for protection under Federal or State Insolvency Statutes by submitting Proofs of Claim to the appropriate courts of jurisdiction. The Bankruptcy Section filed 2,253 Proofs of Claim for \$45,357,657; 794 Amended Proofs of Claim for \$11,072,857; and 319 Administrative Proofs of Claim totaling \$11,378,844. Bankruptcy revenue for the year totaled \$8,556,848.

Bulk Sales. The Bulk Sales Section is responsible for examining the tax records of each business which disposes of its assets either by sale, transfer, or assignment, other than in the normal course of business. This area also issues Tax Clearance Certificates for Transfer of Retail Alcoholic Beverage Licenses. The Bulk Sales Section received 2,558 Notices of Sale during the fiscal year. Revenue for the fiscal year totaled \$12,049,296.

Closing Agreements. Under provisions of the State Tax Uniform Procedure Law, applications for compromise/settlement of tax debts are processed. The Branch approved 57 Closing Agreements. Revenue on Closing Agreement cases totaled \$3,225,997.

Judgments. The Judgment Section secures overdue liabilities from taxpayers who neglected or refused to pay taxes and/or file returns through normal channels. The primary enforcement vehicle is the Certificate of Debt, which is filed with the Clerk of the New Jersey Superior Court. A Certificate of Debt has the same force and effect as a Docketed Judgment adjudicated in any court of law. In conjunction with 6,558 cases, the Division of Taxation

filed 13,908 Certificates of Debt in the Superior Court totaling \$154,900,628. The Judgment Section's revenue totaled \$7,911,901.

Compliance Services

The Compliance Services Branch provides services to the taxpaying public and the Division of Taxation; and works with other State agencies such as the Division of Motor Vehicles, the State Division of Alcoholic Beverage Control (ABC) and the Lottery Commission. Total Branch fiscal year collections were \$39,231,542. Some specific functions of the Branch are:

ABC Clearance Section. This section, working with the State ABC, is responsible for the issuance of the Alcoholic Beverage Retail Liquor License Clearance Certificate prior to the annual renewal of the license. There are approximately 10,000 licenses that must renew each year.

Delinquency Section. This section is responsible for issuing delinquency notifications when taxpayers fail to file required tax returns when due in accord with their filing status. Of the 26 taxes administered by the Division, 18 have delinquency programs.

Deferred Payment Section. This section provides an avenue for taxpayers to repay deficient taxes by way of a formal payment plan. This section monitors more than 2,500 active payment plans with monthly revenue averaging \$1 million.

Casual Sales Section. This section works with the Division of Motor Vehicles to verify, assess, and collect the appropriate sales tax on the purchase of motor vehicles, boats and aircraft. Out-of-State purchases are also questioned.

OSI Liaison. This area is the link to OSI, a private collection agency contracted to collect delinquent and deficient taxes for the Division. They assure that the vendor complies with Division policies and procedures; and act as facilitators between Division and OSI personnel.

This Branch also has a section responsible for **Vendor Set-Off**, a program that allows for the interception of monies due to vendors for services rendered and the application of said monies to deficient and delinquent taxes owed by the vendor; **SOIL**, Set-Off of Individual Liability, a program designed to withhold income tax refunds and rebates from taxpayers who have tax debts; **Lottery**, a project intended to verify to the New Jersey Lottery Commission that prospective lottery agents are current in their taxes; and **CATCH**, Citizens Against Tax Cheats, a vehicle to report those suspected of not paying, reporting, or collecting taxes.

Taxpayer Accounting

In its most simple terms, the Mission Statement of the Taxpayer Accounting Branch is to review bills and refunds and to answer taxpayer correspondence so that taxpayers can pay what they owe, receive what is due to them, and correct any errors in their accounts. To that end, the Branch issues bills for underpayment of tax and penalties and interest; reviews bills and refund or credit requests for accuracy; makes online adjustments in accounts to correct errors; and responds to taxpayer inquiries regarding the status of their accounts.

Taxpayer Accounting is comprised of the Correspondence and Review Sections for personal income tax, a Business Tax Section, and a Support Section. The Branch is, and will continue to be, very heavily involved in the Property Tax Reimbursement, NJ SAVER Rebate and Homestead Rebate programs and staffs Tax Practitioner Hotlines for tax practitioners who are unable to resolve client problems through normal channels.

Investigations

The Investigations Branch is the civil law tax enforcement arm for the Division of Taxation. The Branch is composed of seven field offices in five regions in order to provide geographic coverage for our discovery and enforcement activities.

Those activities include personal contact to register new businesses and to obtain delinquent tax returns and tax underpayments from businesses and individuals. Additional remedies utilized are a Certificate of Debt, a judgment that may be followed by levy, seizure, and sale by auction of assets of the business or personal property of individual tax debtors. Payment plans are encouraged to avoid the seizure and sale of assets. Some tax violations are prosecuted as disorderly person offenses in Trenton Municipal Court. The prime responsibility of the Branch is the discovery of vendors operating in New Jersey but not complying with their tax obligations. This is done using various investigative techniques and by canvassing various business locations.

In fiscal year 2000, more than 10,000 cases received personal contact resulting in only 143 seizures of business assets and/or personal assets (less than 1.5%). Twenty-six auctions were necessary because the tax debtors were unable to make acceptable payment arrangements to redeem their assets.

The field office locations and their county areas of responsibility are:

Region A—Newark: Essex, Hudson

Region B—Somerville: Sussex, Morris, Warren, Union,
northern half of Somerset

Region B—Fair Lawn: Bergen, Passaic
 Region C—Camden: Camden, southern half of Burlington, Gloucester, Salem
 Region C—Quakerbridge: Mercer, Hunterdon, southern half of Somerset, western half of Middlesex, northern half of Burlington
 Region D—Sea Girt: Monmouth, northern half of Ocean, eastern half of Middlesex
 Region D—Northfield: Atlantic, Cape May, Cumberland, southern half of Ocean.

The field offices also provide walk-in taxpayer service and education in every office except Quakerbridge. In fiscal year 2000, field Taxpayer Service Offices assisted 58,137 taxpayers and tax practitioners over the phone and 53,978 in person with personal income tax preparation and inquiries; billing notices; business registrations; tax-ability inquiries; form completion and distribution; accepting tax payments; Homestead Rebate, Property Tax Reimbursement and NJ SAVER Rebate programs assistance.

The fifth region, Region E, is composed of special project teams with statewide responsibility. Their purpose is to identify areas of noncompliance, particularly by transient, out-of-State vendors that may have activities in New Jersey that create nexus for taxes administered by the Division. Region E conducts both industry specific investigations and geographic point of entry surveillances at various New Jersey border sites.

All five regions utilize their statutory authority to make an immediate, on-site assessment of tax due referred to as a “jeopardy assessment” when confronted with an out-of-State vendor who failed to register their business with New Jersey, failed to file tax returns, and/or failed to remit taxes due to New Jersey. Failure to satisfy the jeopardy assessment may result in immediate seizure of assets including vehicles. In fiscal year 2000, more than 10,834 vendors were researched for tax compliance. New business registrations were secured from 1,410 business owners and tax education provided to 15% of the vendors.

Highlights

- **Closing Agreements Approved.** Fifty-seven (57) Closing Agreements initiated by the Branch were approved. Collections on Closing Agreement cases totaled \$3,225,997.
- **Web Page Posting Project.** In April 1999, the Division of Taxation began posting information on its Web page pertaining to Certificates of Debt (judgments) filed against taxpayers who had the largest balances; both business taxpayers and individual taxpayers are listed. Prior to listing a taxpayer, the Branch sends notification of its intention to do so, via certified mail, to each taxpayer to be listed. Each month the listing is

refreshed. As of the close of fiscal year 2000, 1,715 such notices were sent. Collections realized by the Division in connection with these postings totaled \$3,707,712.

- As a result of recent Federal legislation, a new project was undertaken by Compliance Services. The Federal Offset of Individual Liability program (**FOIL**) allows the State of New Jersey, or any participating state, to offset income tax liability by a refund due the taxpayer from the Internal Revenue Service. The first year of taking part in this revenue-generating program yielded almost \$1,900,000 from only 10,000 taxpayers. This year the program has been expanded to include all New Jersey taxpayers with an income tax liability.
- With a programming change to the Vendor Set-Off program, collections for this endeavor nearly tripled to \$2,802,418. The programming change allowed for a more efficient system to identify vendors with State contracts.
- Collections in the Casual Sales section were up 40% to a record high of \$5,119,649 due to concerted efforts placed on the taxability of aircraft.
- In fiscal year 2000, the Taxpayer Accounting Branch answered nearly 120,000 pieces of correspondence and more than 37,000 phone calls; reviewed more than 68,000 bills and almost 47,000 refunds; received in excess of \$4 million and made almost 290,000 adjustments or corrections to taxpayer accounts.
- The Business Tax Section of Taxpayer Accounting successfully weathered the first Department of Labor billing since consolidated filing began with the third quarter of 1998. Some systems enhancements relative to payment allocation and a lot of good planning enabled the section to keep pace with the many phone calls and account problems that needed to be resolved in cooperation with Labor. Additional systems enhancements are still needed, but the first round of billing went much more smoothly than anticipated.
- Total collections from Field Investigators increased 7% to \$66,072,633. This increase can be credited to the success of the many compliance activities developed.
- The Municipal Court project saw an increase in revenue collection from \$2.78 million to \$6.75 million this fiscal year.
- The Special Projects Region had an increase in collections to \$5.9 million. This was a 10% increase from the previous fiscal year.

PROPERTY ADMINISTRATION

Property Administration consists of two branches, Local Property and Unclaimed Property. Local Property, whose activities concern real and certain personal property, is comprised of Policy and Planning; Local Assessment Compliance; and Field Assistance. Unclaimed Property, whose activities pertain to intangible personal property and safe deposit box contents, includes the Audit Section and the Operations Section.

Unclaimed Property

Unclaimed Property consists of financial assets, such as: savings accounts, wage checks, life insurance policies, dividends, stocks and bonds. Property is "unclaimed" when it cannot be paid or delivered to the apparent owner, and there is no communication between the holder and the apparent owner for a specified abandonment period. This program is defined in N.J.S.A. 46-30B, et seq. The Unclaimed Property Web site can be searched at the following addresses:

Claim Information —

<http://www.state.nj.us/treasury/taxation/updiscl.htm>

Holder Information —

<http://www.state.nj.us/treasury/taxation/unclaim.htm>

Audit. Audit section conducts compliance audits of major corporate holders of unclaimed property. Corporate entities audited include insurance companies, banks, brokerage firms, mutual funds, retailers, utilities, etc. The State also contracts with two audit firms for out-of-State holders.

Operations. *Holder Reporting Unit* receives approximately 12,000 reports from holders who report unclaimed property that meets the abandonment criteria. The report section works with holders to assure the accuracy of reports and their correct entry onto the electronic system. Magnetic tapes are received for all reports with 500 or more records. This unit assists holders to attain compliance with unclaimed property laws.

Claims Processing Unit receives all claims for the return of unclaimed property. Claims are researched and prior to payment, rightful ownership is validated. Approximately 27,000 claims are received each year and about \$20 million is annually returned to New Jersey taxpayers.

Administration Unit manages the five Unclaimed Property Trust funds and the Unclaimed Property Security Portfolio. All funds and securities are monitored and reconciled on a monthly basis. This unit also oversees Unclaimed Property contracts and special projects.

Intestate Estates Unit supervises and oversees the administration of intestate (no will, no apparent heir) estates through the court appointment of an administrator. If the search for heirs is unsuccessful, the administrator turns over proceeds to the State, minus estate expenses and statutory fees. This figure averages \$2.5 million per year.

Local Property

Policy and Planning. Policy and Planning Section reviews and prepares comments on proposed legislation concerning property tax issues; reviews and approves reassessment and revaluation programs and contracts; develops procedures for uniform application of senior citizens' and veterans' deductions and certifies the amounts for State reimbursement to local taxing districts; oversees the administration of the Farmland Assessment Act of 1964; in cooperation with Local Property Field Staff and the Attorney General's Office, defends the Table of Equalized Valuations; coordinates biannual Tax Assessors' Certification Exams; monitors activities of county boards of taxation in all phases of tax administration; oversees the collection and remittance of the Realty Transfer Fees by county recording officials; audits the county appeals trust fund accounts for adequate controls and proper expenditures; prepares written guidelines and materials on various property tax programs and statutes for use by assessors and county tax board members; and responds to general taxpayer inquiries, correspondence and legislative referrals regarding property tax matters.

Local Assessment Compliance

Railroad Property Unit classifies, assesses and taxes railroad properties and assesses and computes railroad franchise tax.

Tax Maps Unit reviews and approves municipal tax maps for conformance to current specifications and as required for municipal revaluations.

Local Assessor Compliance Unit was established in the fall of 1997. This unit reviews certain information that pertains to municipal tax assessors. The unit also conducts periodic inspections of tax assessors' offices for compliance with statutory responsibilities. The unit will also review tax assessor offices to determine if they have proper staff and equipment in order to carry out their duties.

Field Assistance

Field Assistance provides direct assistance to 566 municipal tax assessors' offices and 21 county tax boards in solving routine administrative problems. Field Staff investigates SR-1As for sales ratio purposes; gathers evidence for the defense of Table of Equalized Valuations appeals; collects material and labor costs for development

of improved assessment standards; assists the Transfer Inheritance Tax Bureau with appraisals for inheritance tax purposes and maintains the Real Property Appraisal Manual provided for use by New Jersey Assessors. (Special studies and investigations are conducted as required to meet unusual or unique circumstances.)

Sales Ratio oversees the Assessment-Sales Ratio Program and develops the annual Table of Equalized Valuations from the data analyzed. The Table is used in the calculation and distribution of State School Aid, to apportion county and regional school district taxes and to measure debt limits of local government units. The Table of Equalized Valuations shows the average ratio of assessed to true value of real estate for each municipality in the State. Several publications related to Sales Ratio data are produced annually and are widely distributed to the assessment community and beyond. In cooperation with Local Property Field Staff and the Attorney General's Office, defends the Table of Equalized Valuations.

Technical Support provides assistance to county boards of taxation with electronic transmission of sales data, rules and regulations regarding changes in response to legislative changes affecting equalization, preparation of the county abstract of ratables, county equalization tables; and coordinates transmissions of data with data centers and county tax boards.

Education/Training. Property Administration personnel are members of the County Tax Board and Tax Assessor's Educational Committees and take a leadership role in training, education seminars and courses which provide procedural information on new and complicated legislation, existing laws and/or procedures to improve the performance of their duties. Local Property Branch personnel administer P.L.1999, C. 278, the continuing education bill for certified tax assessors. George Lorbeck and Patty Wright serve on the Continuing Education Eligibility Board and have full responsibility for the administrative functions of processing courses/seminars submitted to the Eligibility Board and the review and recording of certification credits submitted by holders of the Certified Tax Assessor (C.T.A.) certificate, as well as numerous other duties related to the recertification process.

Highlights

- Unclaimed Property receives approximately \$70 million in assets yearly.
- The Unclaimed Property Securities Portfolio received \$28 million in fiscal year 2000.
- 73 applications for Tax Assessors' Exams were filed.
- 12 revaluation programs were implemented in 2000 at an average cost of \$52.60 per line item and a total cost

of \$1,914,742. There were 17 reassessment programs implemented in 2000.

- \$158,376,249 in Realty Transfer Fees was generated with \$77,700,730 deposited into the General Fund and \$38,749,140 credited to the Neighborhood Preservation Nonlapsing Revolving Fund for fiscal year 2000.
- \$62,110,920 in State Revenue Sharing Distribution funds was reimbursed to New Jersey's 566 municipalities on November 1, 2000. The total amount of property tax deductions for senior and disabled citizens and surviving spouses was \$28,835,474. The total amount of veterans' deductions was \$33,275,446.

TECHNICAL SUPPORT

The Technical Support Activity consists of two branches – the Individual Tax Systems and IT Support Branch and the Business Tax Systems and MIS Support Branch. The combined services of these two branches provides the Division of Taxation with the technological assistance required to effectively administer the New Jersey State tax laws. Some of these services include the development, monitoring and maintenance of the various tax systems, the design and procurement of tax forms, applications, licenses, and other related information, the procurement, installation and maintenance of computer hardware and software, the maintenance and updating of the Division's Web site and the Intranet, and the training of Division employees. Additionally, Technical Support has responsibility for Wide Area Network (WAN) connectivity, network and e-mail administration and telecommunication, maintains various micro-based systems that support applications throughout the Division, performs special project work, and provides numerous informational reports for use both within and outside the Division. Technical Support personnel interact on a regular basis with representatives of other State and Federal agencies as well as outside vendors to provide these services in the most efficient manner possible. The activity continually strives to keep abreast of new technological developments and makes every effort to implement those that are consistent with and further enhance the goals of the Division.

Business and Individual Tax Systems. The analysts that support the various tax systems are responsible for the maintenance of and enhancements to existing tax systems and, when necessary, the development of new systems. These groups coordinate their efforts with those of the Office of Information Technology (OIT) in order to ensure that the day-to-day operational needs of the Division are met. They provide technical assistance to Division personnel as well as aid in problem resolution with respect to the various systems. Programming like facilities such as FDF-PC, DCF, NOW, NATURAL and TSO are often employed in providing these services. They also act as liaisons for the Division with other State, Federal and local agencies when required.

TAXNET Help Desk. This group possesses expertise in the various tax and data systems designed for use within the Division. It is their responsibility to assist Division personnel on a daily basis in resolving any problems encountered with these systems. They are also responsible for tracking the identification and resolution of these problems, and for performing table and file maintenance for the various systems. During 2000, the TAXNET Help Desk answered 4,536 telephone calls, completed 2,489

problem notification forms and 2,595 employee changes. In addition, 1,700 Telecommunication Request/Problem Detail Reports involving troubleshooting, removing and installing of telephone devices or other telecommunication equipment were completed.

Forms. The activity is responsible for the design and technical specifications of many New Jersey State tax forms, applications, instructions, booklets and other publications. Knowledge of the technological advancements that have been made in the printing and processing fields is critical to successful operations in this area. The analysts work in conjunction with the Division of Revenue personnel, who have responsibility for the processing of all tax returns, to ensure that all of the form requirements are met for the various types of processing equipment. Requirements include specific inks that will drop out for ICR, size of forms, margins, targets and registration marks, spacing of fields and specific fonts for OCR. The analysts coordinate their efforts with those of the purchase bureau and the printing contractors to provide quality products consistent with these requirements. The newest technology being implemented for the 2000 tax year is 2-D barcodes, where all of the information reported is in one barcode on the return. Other duties assigned to this group are attending bidders' conferences, performing site inspections of perspective vendors and occasionally supervising the production process to ensure quality control.

Network and Desktop Support. This unit is responsible for ensuring the availability of all network devices and services, including the Division's e-mail system and the CD ROM subscriptions which provide online access to many of the Division's research tools. In addition, they provide desktop hardware and software support by diagnosing, troubleshooting and repairing PCs and related devices. They are also responsible for the deployment and setup of new and upgraded PCs, including the installation of new software and the transfer of data.

Application Development and Audit/Investigations Support. This group processes data received from various outside agencies, provides users with information for audits, and develops new informational reports for Division managers. They also have the responsibility to assist field auditors and investigators with updates and maintenance of laptops, programs such as SmartPapers and evaluating new technologies for enhancements in efficiency.

Web Development and Training. This group has responsibility for the development and maintenance of the Division's Web site and Intranet site. The team also provides internal technical training for various desktop software and other programs and systems used Division-wide. Other responsibilities include the development of creative

PowerPoint and other media presentations for Division management's public speaking engagements.

Highlights

- Continued participation in the Federal Off-Set Program. Collections from the initial 14,000 notices totaled approximately \$650,000. Collections from the offsets of Federal refunds approximated \$1,360,000, which brings the total amount of debt collected to just over \$2,000,000. The program will be expanded in 2001 to include all income tax debts that meet the Federal regulations with an estimated initial mailing of 97,000 notices.
- In conjunction with other Division personnel, have begun to explore the benefits of incorporating Geographic Information Systems (GIS) in various areas within the Division including property administration, customer service and outreach, audit, and case assignment.
- Continued to work towards the replacement of the current MOD IV system that maintains and prepares the property tax information required by the Division. The development of a comprehensive RFP for a new Property Assessment Management System (PAMS) is in progress.
- Continued to assist the Division of Revenue and OIT in the development of the Centralized Revenue Management System. This project will enhance the Division's TAXNET systems and provide for non-tax debt functionality.
- Installation and upgrade of the Division's e-mail system, and network file server and operating system, providing greater capacity and more effective and efficient use of available resources.
- Continued to work with the Division of Revenue and OIT personnel on a 2-D barcode pilot project for certain 2000 tax year returns. 2-D barcoding will provide more accurate and efficient processing of the various computer generated tax forms.
- Continued to work with the Division of Revenue and OIT personnel on a project to integrate the filing of a corporation's Annual Report fee with their New Jersey Corporation Business Tax return.
- Continued to work on the expansion of the Division's internal training programs.
- Completed implementation of the NJ SAVER Rebate Program including the development of an Internet based inquiry system and the expansion of the eligible property owners who can file telephonically.
- Implemented the system changes required to allow certain taxpayers on deferred payment plans to remit their payment through EFT.

CHIEF OF STAFF

The Office of the Chief of Staff is responsible for representing the Division of Taxation throughout State government as well as supplying Division-wide support in the areas of Management Services, Disclosure, Fiscal matters, Personnel matters and Labor Relations.

Management Services

The Management Services Activity encompasses the responsibility of providing support in the following areas:

Facilities Management. Responsible for providing building maintenance and management services for 12 office buildings located throughout New Jersey, as well as coordinating maintenance and management services for the Division's out-of-State locations. Facilities Management also has the responsibility for managing and maintaining the Division's property, equipment inventory, and distribution of supplies to the entire Division.

Mail Services. Responsible for the pickup, sorting, recording and delivery of mail for the entire Division, including field offices. This office processes approximately 13 to 14 million pieces of mail annually.

Records Management. Responsible for the entire Division's records management and storage. Maintains a records placement and tracking system that enables Division personnel to retrieve documents and files quickly and efficiently.

Disclosure

The Disclosure function entails many administrative duties, including responses to internal and external requests for tax records and the recommendation and implementation of exchange agreements with other agencies. Some of the agencies include the Internal Revenue Service, New Jersey State Police, Division of Criminal Justice, Division of Law, Division of State Lottery, and many other states through their Departments of Revenue/Taxation. Through this function the Division of Taxation, with the cooperation of other taxing agencies throughout the United States, has been able to locate and identify tax evaders who cross state lines.

Fiscal, Personnel and Labor Relations

The Office of the Chief of Staff works in conjunction with the Department of Treasury's Fiscal Office, Human Resources and Department of Personnel. The objectives are to coordinate, control and maintain all requests for personnel, equipment and budgetary needs and to maintain control over all personnel matters, including disciplinary and grievance actions concerning Division employees.

OFFICE OF CRIMINAL INVESTIGATION

The Office of Criminal Investigation is responsible for the detection and investigation of alleged criminal violations of the State tax code. In addition, the responsibility of internal security and internal control assessments falls within the jurisdiction of this area.

The activities within the Office of Criminal Investigation are:

Office of Criminal Investigation. Cases that indicate willful intent to evade the tax laws are developed. Based on the findings of the investigation, recommendations for criminal prosecution are made to the State Attorney General's Office, the county prosecutor, or the United States Attorney's Office. Cases are generated from projects within this activity, referrals from other functions within the Division, participation in joint investigations with prosecutors' offices and other law enforcement agencies, and concerned citizens.

OCI works closely with prosecutors and investigators at all governmental levels. Liaison activities are encouraged, and joint investigations are conducted in cases dealing with economic and financial crimes that have tax compliance consequences. Currently, OCI is also actively involved in cooperative efforts with the New Jersey State Police, the Federal Bureau of Investigation, the Internal Revenue Service, the United States Postal Inspection Service, and states within the Northeast Corridor.

Cigarette Tax. Special agents assigned to OCI have the statutory authority to investigate violations of New Jersey's Cigarette Tax laws. Investigative resources have been directed towards the sale of unstamped cigarettes, smuggling, counterfeiting, and the location of contraband.

Internal Security Unit. Handles sensitive matters, including integrity investigations (attempts by outsiders to corrupt Division employees and also allegations that employees have committed ethical or criminal violations), background investigations of prospective employees, and assaults and threats by persons who impede the functions of the Division. The unit also provides training to enable new employees to recognize possible compromising situations. Examples of cases worked during the fiscal year included attempted bribery of an employee, various physical threats to employees, and other integrity matters.

Highlights

- 98 cases were forwarded to prosecutors, 337 complaints were evaluated resulting in the initiation of 52

criminal cases. Total of 170 ongoing criminal investigations.

- 218 criminal investigations of cigarette tax violations were initiated; 68 of these cases involved the seizure of contraband cigarettes and the seizure of 1 vehicle. Seized 6,582 cartons of contraband cigarettes valued at \$220,497.
- 1,120 background investigations and 29 integrity investigations were conducted.